Tennessee Board of Regents
Tennessee Technology Center at Dickson

For the Years Ended
June 30, 1997, and June 30, 1996

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Technical Analyst

Leslie Bethea
Editor

August 12, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Mr. Bobby F. Sullivan, Director
Tennessee Technology Center at Dickson
740 Highway 46
Dickson, Tennessee 37055

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Dickson, for the years ended June 30, 1997, and June 30, 1996. You will note from the independent auditor’s report that a qualified opinion was given on the fairness of the presentation of the financial statements. The center has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/rm
98/059

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee Technology Center at Dickson
For the Years Ended June 30, 1997, and June 30, 1996

AUDIT OBJECTIVES

The objectives of the audit were to consider the center's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Board of Regents
Tennessee Technology Center at Dickson
For the Years Ended June 30, 1997, and June 30, 1996

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Tennessee Board of Regents
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For the Years Ended June 30, 1997, and June 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Dickson. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

A statewide system of area vocational-technical schools was established in 1963 by Section 49-11-401, *Tennessee Code Annotated*, to meet the occupational and technical training needs of the citizens of the state, including employees and future employees of existing and prospective industries and businesses in the state. The area vocational-technical schools were governed by the State Board of Education until July 1, 1983. At that time, governance was transferred by Section 49-11-402, *Tennessee Code Annotated*, to the Tennessee Board of Regents. Effective July 1, 1994, the area vocational-technical schools became state technology centers. The Tennessee Technology Center at Dickson began operation in 1965.

ORGANIZATION

The Tennessee Technology Center at Dickson operates under a lead institution agreement with Nashville State Technical Institute. Under this agreement, Nashville State Technical Institute performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. The director is responsible to the Chancellor of the Tennessee Board of Regents.

AUDIT SCOPE

The audit was limited to the period July 1, 1995, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 1997, and June 30, 1996. The Tennessee Technology Center at Dickson is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the center's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the center's financial statements for the years ended June 30, 1997, and June 30, 1996, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The center has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the center's financial statements.

Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards

June 11, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Tennessee Technology Center at Dickson, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1997, and June 30, 1996, and have issued our report thereon dated June 11, 1998. Our report was qualified because the center omitted the liability for accrued compensated absences from the balance sheets. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether the center's financial statements are free of material misstatement, we performed tests of the center's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting that we have reported to the center's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/rm

Independent Auditor's Report

June 11, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Technology Center at Dickson, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the center's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the center has omitted the liability for accrued compensated absences from the accompanying balance sheets which should be included to conform with generally accepted accounting principles.

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Tennessee Technology Center at Dickson, as of June 30, 1997, and June 30, 1996, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 1998, on our consideration of the center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/rm

Exhibit A

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT DICKSON
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

ASSETS

	June 30, 1997	June 30, 1996
Current funds:		
Unrestricted:		
General:		
Cash (Note 3)	$ 142,879.26	$ 108,388.46
Accounts receivable	29,145.29	67.00
Prepaid expenses	23.92	-
Total general	172,048.47	108,455.46
Auxiliary enterprises:		
Cash (Note 3)	509.96	36,026.41
Accounts receivable	839.71	1,207.16
Inventories	22,697.01	18,833.61
Total auxiliary enterprises	24,046.68	56,067.18
Total unrestricted	196,095.15	164,522.64
Restricted:		
Cash (Note 3)	135,031.53	-
Accounts and grants receivable	12,671.98	9,921.26
Due from Tennessee Technology Center at Nashville	-	116,421.45
Total restricted	147,703.51	126,342.71
Total current funds	$ 343,798.66	$ 290,865.35
Plant funds:		
Renewals and replacements:		
Cash (Note 3)	$ 218,627.02	$ 153,444.72
Due from unrestricted current funds	41,874.84	-
Due from Tennessee Technology Center at Nashville	178,217.76	62,590.72
Total renewals and replacements	438,719.62	216,035.44
Investment in plant:		
Land	30,681.00	30,681.00
Buildings	601,737.00	601,737.00
Improvements other than buildings	32,972.00	32,972.00
Equipment	2,471,191.71	1,726,071.21
Construction in progress	3,259,051.63	1,274,294.90
Total investment in plant	6,395,633.34	3,665,756.11
Total plant funds	$ 6,834,352.96	$ 3,881,791.55

LIABILITIES AND FUND BALANCES

	June 30, 1997	June 30, 1996
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 11,402.97	$ 20,600.17
Accrued liabilities	41,901.45	35,898.29
Due to renewals and replacements	41,874.84	-
Total liabilities	95,179.26	56,498.46
Fund balances:		
Nondiscretionary allocation:		
Allocation for working capital	29,219.21	117.00
Discretionary allocation:		
Allocation for subsequent budget	47,650.00	51,840.00
Total fund balances	76,869.21	51,957.00
Total general	172,048.47	108,455.46
Auxiliary enterprises:		
Liabilities:		
Accounts payable	-	148.83
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	23,536.72	20,040.77
Allocation for encumbrances	509.96	7,781.65
Unallocated	-	28,095.93
Total fund balances	24,046.68	55,918.35
Total auxiliary enterprises	24,046.68	56,067.18
Total unrestricted	196,095.15	164,522.64
Restricted:		
Liabilities:		
Accounts payable	618.00	211.50
Accrued liabilities	60.20	-
Total liabilities	678.20	211.50
Fund balance	147,025.31	126,131.21
Total restricted	147,703.51	126,342.71
Total current funds	$ 343,798.66	$ 290,865.35
Plant funds:		
Renewals and replacements:		
Liabilities:		
Accounts payable	$ 1,647.96	$ -
Fund balance:		
Unrestricted	437,071.66	216,035.44
Total renewals and replacements	438,719.62	216,035.44
Investment in plant:		
Fund balance:		
Net investment in plant	6,395,633.34	3,665,756.11
Total investment in plant	6,395,633.34	3,665,756.11
Total plant funds	$ 6,834,352.96	$ 3,881,791.55

The notes to the financial statements are an integral part of this statement

Exhibit B

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT DICKSON
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds		Plant Funds		
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS					
Unrestricted current fund revenues	$ 1,565,675.80	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	89,220.82	-	-	-	-
State appropriations	-	-	2,728,269.70	-	-
Federal grants and contracts	-	157,264.69	-	-	-
Private gifts, grants, and contracts	-	6,369.67	-	-	-
Investment income	-	-	-	15,404.08	-
Expended for plant facilities (including $25,573.02 charged to current fund expenditures)	-	-	-	-	2,731,726.43
Total revenues and other additions	1,654,896.62	163,634.36	2,728,269.70	15,404.08	2,731,726.43
EXPENDITURES AND OTHER DEDUCTIONS					
Educational and general expenditures	1,381,946.76	141,843.42	-	-	-
Auxiliary enterprise expenditures	72,629.22	-	-	-	-
Indirect costs recovered	-	790.97	-	-	-
Refunded to grantors	-	105.87	-	-	-
Expended for plant facilities	-	-	2,706,153.41	-	-
Expended for noncapital items	-	-	22,116.29	1,647.96	-
Disposal of plant facilities	-	-	-	-	1,849.20
Total expenditures and other deductions	1,454,575.98	142,740.26	2,728,269.70	1,647.96	1,849.20
TRANSFER BETWEEN FUNDS - ADDITION (DEDUCTION)					
Nonmandatory:					
Renewals and replacements	(207,280.10)	-	-	207,280.10	-
Net increases (decrease) for the year	(6,959.46)	20,894.10	-	221,036.22	2,729,877.23
Fund balances at beginning of year	107,875.35	126,131.21	-	216,035.44	3,665,756.11
Fund balances at end of year	$ 100,915.89	$ 147,025.31	$ -	$ 437,071.66	$ 6,395,633.34

The notes to the financial statements are an integral part of this statement.

Exhibit C

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT DICKSON
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds		Plant Funds		
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS					
Unrestricted current fund revenues	$ 1,305,320.70	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	72,389.73	-	-	-	-
State appropriations	-	-	1,379,862.78	-	-
Federal grants and contracts	-	127,515.54	-	-	-
Private gifts, grants, and contracts	-	9,741.97	-	-	-
Investment income	-	-	-	11,742.45	-
Expended for plant facilities (including $38,682.00 charged to current fund expenditures)	-	-	-	-	1,395,819.99
Other	-	-	-	-	6,695.85
Total revenues and other additions	1,377,710.43	137,257.51	1,379,862.78	11,742.45	1,402,515.84
EXPENDITURES AND OTHER DEDUCTIONS					
Educational and general expenditures	1,281,609.45	126,446.32	-	-	-
Auxiliary enterprise expenditures	60,824.61	-	-	-	-
Indirect costs recovered	-	788.40	-	-	-
Refunded to grantors	-	1,632.51	-	-	-
Expended for plant facilities	-	-	1,340,101.98	17,036.01	-
Expended for noncapital items	-	-	39,760.80	-	-
Disposal of plant facilities	-	-	-	-	33,604.15
Total expenditures and other deductions	1,342,434.06	128,867.23	1,379,862.78	17,036.01	33,604.15
TRANSFER BETWEEN FUNDS - ADDITION (DEDUCTION)					
Nonmandatory:					
Renewals and replacements	(66,950.00)	-	-	66,950.00	-
Net increases (decrease) for the year	(31,673.63)	8,390.28	-	61,656.44	1,368,911.69
Fund balances at beginning of year	139,548.98	117,740.93	-	154,379.00	2,296,844.42
Fund balances at end of year	$ 107,875.35	$ 126,131.21	$ -	$ 216,035.44	$ 3,665,756.11

The notes to the financial statements are an integral part of this statement.

Exhibit D

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT DICKSON
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 94,380.00	$ -	$ 94,380.00
State appropriations	1,333,700.00	-	1,333,700.00
Federal grants and contracts	127.00	140,671.02	140,798.02
Private gifts, grants, and contracts	107,137.91	1,172.40	108,310.31
Investment income	13,548.45	-	13,548.45
Sales and services of educational activities	11,957.10	-	11,957.10
Sales and services of auxiliary enterprises	89,220.82	-	89,220.82
Other sources	4,825.34	-	4,825.34
Total current revenues	1,654,896.62	141,843.42	1,796,740.04
EXPENDITURES AND TRANSFER			
Educational and general:			
Expenditures:			
Instruction	931,461.33	16,338.27	947,799.60
Student services	134,779.98	2,383.25	137,163.23
Institutional support	212,419.37	-	212,419.37
Operation and maintenance of plant	102,348.58	-	102,348.58
Scholarships and fellowships	937.50	123,121.90	124,059.40
Total educational and general expenditures	1,381,946.76	141,843.42	1,523,790.18
Nonmandatory transfer for:			
Renewals and replacements	207,280.10	-	207,280.10
Total educational and general	1,589,226.86	141,843.42	1,731,070.28
Auxiliary enterprises:			
Expenditures	72,629.22	-	72,629.22
Total auxiliary enterprises	72,629.22	-	72,629.22
Total expenditures and transfer	1,661,856.08	141,843.42	1,803,699.50
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	21,790.94	21,790.94
Indirect costs recovered	-	(790.97)	(790.97)
Refunded to grantors	-	(105.87)	(105.87)
Net increase (decrease) in fund balances	$ (6,959.46)	$ 20,894.10	$ 13,934.64

The notes to the financial statements are an integral part of this statement.

Exhibit E

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT DICKSON
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1996

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 86,527.08	$ -	$ 86,527.08
State appropriations	1,080,300.00	-	1,080,300.00
Federal grants and contracts	168.00	123,095.90	123,263.90
Private gifts, grants, and contracts	111,457.68	3,350.42	114,808.10
Investment income	11,627.65	-	11,627.65
Sales and services of educational activities	11,159.50	-	11,159.50
Sales and services of auxiliary enterprises	72,389.73	-	72,389.73
Other sources	4,080.79	-	4,080.79
Total current revenues	1,377,710.43	126,446.32	1,504,156.75
EXPENDITURES AND TRANSFER			
Educational and general:			
Expenditures:			
Instruction	866,301.65	29,817.64	896,119.29
Student services	100,734.17	538.15	101,272.32
Institutional support	215,336.42	-	215,336.42
Operation and maintenance of plant	97,607.96	1,150.11	98,758.07
Scholarships and fellowships	1,629.25	94,940.42	96,569.67
Total educational and general expenditures	1,281,609.45	126,446.32	1,408,055.77
Nonmandatory transfer for:			
Renewals and replacements	66,950.00	-	66,950.00
Total educational and general	1,348,559.45	126,446.32	1,475,005.77
Auxiliary enterprises:			
Expenditures	60,824.61	-	60,824.61
Total auxiliary enterprises	60,824.61	-	60,824.61
Total expenditures and transfer	1,409,384.06	126,446.32	1,535,830.38
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	10,811.19	10,811.19
Indirect costs recovered	-	(788.40)	(788.40)
Refunded to grantors	-	(1,632.51)	(1,632.51)
Net increase (decrease) in fund balances	$ (31,673.63)	$ 8,390.28	$ (23,283.35)

The notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The center is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report.*

Basis of Presentation

The financial statements of the center have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The center uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the center have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as expenditures, for normal replacement of movable equipment, and nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the center maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from receivables and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

<u>Current Funds</u>

Unrestricted current funds consist of those funds over which the center retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and consist of the bookstore. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, and (3) funds expended for, and thus invested in, institutional properties.

Inventories

Inventories are valued at cost. Textbooks and other items included in the inventory are recorded on a first-in, first-out basis.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Depreciation on the physical plant and equipment is not recorded.

NOTE 2. COMPENSATED ABSENCES

The center's employees accrue annual leave at varying rates, depending on length of service or classification. Generally accepted accounting principles require that certain accrued compensated absences and related benefits, the effects of which are material to the financial statements, be recorded as earned. The center's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by $30,565.83 at June 30, 1997, and $31,087.00 at June 30, 1996, decreased the unrestricted current fund expenditures by $521.17 for the year ended June 30, 1997, and increased the unrestricted current fund expenditures by $2,359.09 for the year ended June 30, 1996.

NOTE 3. DEPOSITS

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits. The pledged securities are included with securities pledged for funds on deposit for Nashville State Technical Institute, the center's lead institution. The bank balance of the operating account maintained by the center was entirely insured.

NOTE 4. PENSION PLAN

Defined Benefit Plan

During the year ended June 30, 1997, the center implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for this plan.

Tennessee Consolidated Retirement System

<u>Plan Description</u> - The center contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling (615) 741-8202, extension 139.

Funding Policy - Plan members are noncontributory. The center is required to contribute an actuarially determined rate. The current rate is 7.36% of annual covered payroll. Contribution requirements for the center are established and may be amended by the TCRS' Board of Trustees. The center's contributions to TCRS for the years ended June 30, 1997, 1996, and 1995, were $62,671.30, $49,054.94, and $46,442.27. Contributions met the requirements for each year.

NOTE 5. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible center retirees. This benefit is provided and administered by the State of Tennessee. The center assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 6. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1997, the scheduled coverage for the center was $5,988,700 for buildings and $2,200,000 for contents. At June 30, 1996, the scheduled coverage was $2,901,200 for buildings and $2,200,000 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The center participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on a percentage of the center's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the center participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the center for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The center participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Sick Leave - The center records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $168,838.71 at June 30, 1997, and $153,631.97 at June 30, 1996.

Construction in Progress - At June 30, 1997, outstanding commitments under construction contracts totaled $771,479.35 for building projects, which will be funded by future state capital outlay appropriations.

Litigation - The center is involved in one lawsuit, which is not expected to have a material effect on the accompanying financial statements.

NOTE 8. PLEDGES

At June 30, 1997, unrecorded pledges totaled $5,000 and were restricted to capital campaign uses. These pledges are due to be collected during the next fiscal year. It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.